

Message Text

UNCLASSIFIED

PAGE 01 LA PAZ 02177 01 OF 02 161445 Z

42

ACTION ARA-17

INFO OCT-01 ADP-00 AID-20 EB-11 NSC-10 RSC-01 CIEP-02

TRSE-00 SS-15 STR-08 OMB-01 CEA-02 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

L-03 H-02 PRS-01 PA-03 USIA-12 AGR-20 INT-08 RSR-01

ABF-01 DODE-00 /177 W
----- 080625

R 161327 Z APR 73

FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC 9591

INFO AMEMBASSY LIMA

UNCLAS SECTION 1 OF 2 LA PAZ 2177

E. O. 11652: N/A

TAGS: ECON, EFIN, EGEN, BL

SUBJ: PRIVATE SECTOR MAKES ECONOMIC ANALYSIS AND RECOMMENDATIONS
TO GOB

BEGIN SUMMARY. PRIVATE SECTOR CONFEDERATION MET MARCH 28-30
AND MADE PUBLIC REPORT DESIGNED WARD OFF BLAME FOR ANOTHER
PROSPECTIVE GOB FISCAL DEFICIT. CONFEDERATION REPORT RECOMMENDS
EXPORT SECTOR BE GIVEN ADDITIONAL INCENTIVES (I. E., SPECIAL EXPORT
TAXES BE REDUCED OR ELIMINATED), GOB EXPENDITURES BE REDUCED,
" FINANCING" SHOULD FLOW ONLY TO PRODUCTIVE SECTORS AND TO
INVESTMENT,
REDUCTION BUREAUCRATIC RED- TAPE AND GOVERNMENT INTERVENTION AND
CREATION MORE EFFECTIVE ORGANIZATION TO SUPPORT ECONOMIC
INTEGRATION
EFFORT. END SUMMARY.

1. IN LENGTHY REPORT ON MEETING MARCH 28-30 OF CONFEDERATION OF
PRIVATE BUSINESSMEN (CONFEDERACION DE EMPRESARIOS PRIVADOS),
CONFEDERATION' S PRESIDENT, ADELBERTO VIOLAND NOTED HIS
ORGANIZATION
WORRIED BY 1) CONTINUING INCREASES IN CENTRAL GOVERNMENT EXPENDI-
TURES, 2) FAILURE OF PUBLIC SECTOR INVESTMENT TO INCREASE, 3)
FAILURE IMPROVE EFFICIENCY OF PUBLIC SECTOR ENTERPRISES. SAID FISCAL
BALANCE FORESEEN FOR 1 973 COULD BECOME DEFICIT DUE TO
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LA PAZ 02177 01 OF 02 161445 Z

OVERESTIMATE RECEIPTS. NOTED THAT IN MEETING WITH IMF MISSION IN NOVEMBER, 1972, PRIVATE SECTOR REPRESENTATIVES TOLD MISSION NEW TAXES MORE THAN SECTOR COULD BEAR, THAT CONTRABAND WOULD NOT BE ELIMINATED BY DEVALUATION MEASURES AS MAINTAINED BY GOB ADVISORS AND THAT MEASURES WOULD CREATE RECESSION RATHER THAN GIVE IMPULSE TO ECONOMIC DEVELOPMENT.

2. SAID EVENTS PROVING THESE ESTIMATES CORRECT. CONCESSIONS TO PRIVATE SECTOR HAD BEEN INSUFFICIENT TO AVOID CONTRACTION COMMERCIAL ACTIVITY AND INDUSTRY ACCUMULATING STOCKS DUE COMPETITION FROM CONTRABAND. CLAIMED NEW TAXES RESTRAINING SOME EXPORTS WHEN SHOULD STIMULATE ALL EXPORTS SO THAT EXPORT SECTOR COULD INDUCE HIGHER LEVEL ACTIVITY IN SECTORS ADVERSELY AFFECTED BY DEVALUATION.

3. VIOLAND THEN LAUNCHED INTO WRITTEN ANALYSIS OF STABILIZATION AND DEVELOPMENT PROGRAMS, HIGHLIGHTS OF WHICH REPORTED HERE:

- A. EXPORT SECTOR SHOULD BE GIVEN ADDITIONAL INCENTIVES AND CONTRABAND SHOULD BE ELIMINATED.
 - B. FISCAL EXPENDITURES SHOULD BE REDUCED IF REVENUE OVER-ESTIMATED.
 - C. FINANCIAL RESOURCES SHOULD FLOW ONLY TO PRODUCTION SECTOR.
 - D. INCENTIVES TO FOREIGN INVESTORS SHOULD BE INCREASED.
 - E. FINANCING OF PUBLIC SECTOR SHOULD BE LIMITED TO INVESTMENT (GOB COMMITMENTS THIS REGARD HAVE NOT BEEN HONORED).
 - F. FINANCING FOR PRIVATE SECTOR SHOULD ALSO BE LIMITED TO PRODUCTIVE INVESTMENTS AND NOT USED TO REHABILITATE MARGINAL FIRMS.
 - G. THESE INVESTMENT CREDITS SHOULD BE LONG- TERM WITH LOW INTEREST AND GRACE PERIODS, I. E., MORE ADVANTAGEOUS THAN SUPPLIER CREDITS. (VIOLAND AND CONFEDERATION MAY HERE BE REFERRING TO CENTRAL BANK'S SPECIAL DEVELOPMENT FUNDS INCLUDING AID AG CREDIT AND INDUSTRIAL CREDIT LOANS).
 - H. PRESENT POLICY EMPHASIZES IMPROVEMENT FISCAL RECEIPTS TO DETRIMENT PRODUCTION, EMPLOYMENT AND INVESTMENT.
 - I. NEW ENTREPRENEURIAL SPIRIT NEEDS BE FREED OF BUREAUCRATIC RED- TAPE AND EXCESSIVE GOVERNMENT INTERVENTION.
 - J. DEVELOPMENT IS NOT AUTOMATIC; IT NEEDS CONCRETE PROGRAMS, CLEAR AND PERMANENT RULES OF THE GAME AND TIME TO MATURE.
 - K. PRIVATE SECTOR HAS ACCOMPLISHED FOLLOWING:
 - 1) INI APPROVAL OF 37 PROJECTS DESIGNED TO TAKE ADVANTAGE OF ANDEAN MARKET;
 - 2) PRODUCTION AND EXPORT INCREASES OF NON- TRADITIONAL GOODS SUCH AS COTTON, MEAT, WOOD, HAND- CRAFTS, LIQUOR AND PRESERVED
- UNCLASSIFIED

UNCLASSIFIED

PAGE 03 LA PAZ 02177 01 OF 02 161445 Z

FRUITS AND MEAT;

3) PROMOTION OF WHEAT PRODUCTION AND INSTALLATION OF FLOUR
MILL IN SANTA CRUZ;

4) IMPLEMENTATION OF FIRST ASSIGNMENT UNDER ANDEAN PACT,
PLANT TO MANUFACTURE PETROLEUM INDUSTRY CHRISTMAS TREES, IN MIXED
ARRANGEMENT BETWEEN FUNICION VOLCAN EQUIPOS PETROLEROS DE MEXICO
AND UNNAMED US FIRM WHICH LICENSING ITS TECHNOLOGY;

5) EXPANSION HOTEL CAPACITY; AND

6) " INTEGRATION" OF GROUPS OF FIRMS TO INCREASE THEIR
ECONOMIC POWER AND CREDIT- WORTHINESS.

1. NEW TAXES EXAGGERATIONS, IN PART, DUE TO LACK OF KNOWLEDGE
OF THEIR EFFECT AT MICRO LEVEL.

M. RESTRUCTURING OF PUBLIC SECTOR ENTERPRISES, ANNOUNCED BY
PRESIDENT IN YEAR END MESSAGE, BEING POSTPONED AND NEW PUBLIC
SECTOR ENTERPRISES FORMED WITHOUT JUSTIFICATION. (TWO FOREMOST
NEW PUBLIC SECTOR ENTERPRISES ARE ARMED FORCES DEVELOPMENT
CORPORATION AND SIDERSA).

SIRACUSA

UNCLASSIFIED

ADP000

UNCLASSIFIED

PAGE 01 LA PAZ 02177 02 OF 02 161428 Z

42

ACTION ARA-17

INFO OCT-01 ADP-00 AID-20 EB-11 NSC-10 RSC-01 CIEP-02

TRSE-00 SS-15 STR-08 OMB-01 CEA-02 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

L-03 H-02 PRS-01 PA-03 USIA-12 AGR-20 INT-08 ABF-01

DODE-00 RSR-01 /177 W

----- 080481

R 161327 Z APR 73

FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC 9592

INFO AMEMBASSY LIMA

UNCLAS SECTION 2 OF 2 LA PAZ 2177

N. ABSOLUTELY NECESSARY CREATE ORGANIZATION CAPABLE OF DISSEMINATING INFO AND TECHNICAL ASSISTANCE NEEDED BY PUBLIC AND PRIVATE SECTOR TO TAKE ADVANTAGE OF PRESENT OPPORTUNITIES OFFERED BY ANDEAN PACT AND RECOMMEND MEASURES TO MEET ANDEAN PACT COMPETITION

4. IN RESPONSE TO CONFEDERATION' S REPORT MINPLANNING PRADO TOLD NEWSMEN GOB ECONOMIC POLICY OBVIOUSLY HAS STATIST POSTURE BECAUSE GOB ESSENTIALLY NATIONALISTIC BUT SAID HE DID NOT SEE HOW THIS HARMED PRIVATE ENTERPRISE. PRESIDENT BANZER TOLD PRESS SAID CONFEDERATION' S SUGGESTIONS WOULD BE TAKEN INTO ACCOUNT AND ACTED UPON IF JUSTIFIED. SAID PRIVATE SECTOR ALWAYS COMES UP WITH GOOD IDEAS THAT HAVE OFTEN LED TO SOLUTIONS TO PROBLEMS.

5. COMMENT: MAIN PURPOSE CONFEDERATION' S MEETING AND PUBLIC REPORT APPEARS TO RESPOND TO WIDENING REALIZATION THAT GOB BUDGET MAY AGAIN BE SERIOUSLY IN DEFICIT. GOB AND IMF BLAMING PRIVATE SECTOR FOR WRINGING TO MANY TAX CONCESSIONS FROM GOB AND STILL FAILING PAY SOME TAXES. CONFEDERATION SEEKING PLACE BLAME ON GOB AND IMF FOR POOR REVENUE ESTIMATES BASED ON INADEQUATE UNDERSTANDING ECONOMY OF FIRM AND TAX EFFECTS ON FIRM AND ON GOB FOR FAILURE CONTROL EXPENDITURES.
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LA PAZ 02177 02 OF 02 161428 Z

6. WE NOT CONVINCED PUBLIC SECTOR INVESTMENT HAS FAILED INCREASE. UNDERSTAND COMIBOL HAS MORE MONEY THAN IT CAN SPEND ON INVESTMENTS AT PRESENT TIME AND BELIEVE GOB INVESTMENT EXPENDITURES HIGHER THAN AVERAGE FOR LAST YEAR IN SPITE OF DELAYS CREATED BY RENEGOTIATION CONSTRUCTION CONTRACTS. RECESSION VIOLAND MENTIONS MAINLY IN SALES OF IMPORTED GOODS AS SHOULD BE EXPECTED.

7. THERE ARE MANY CONTRADICTIONS IN CONFEDERATION' S ANALYSIS. FOR EXAMPLE, CLAIMS COMMERCE BEING THROTTLED, YET ADVOCATES DIRECTING CREDIT FLOWS TO INVESTMENT TO EXCLUSION OTHER SECTORS. IGNORES EFFECT MAJOR REDUCTION FISCAL EXPENDITURES WOULD HAVE ON EMPLOYMENT.

8. INI HAS APPROVED 51 PROJECTS; THE 37 PROJECTS MENTIONED BY CONFEDERATION PRESUMABLY CAN TAKE SOME ADVANTAGE OF ANDEAN TARIFF REDUCTIONS, BUT ARE NOT IN INDUSTRIES ASSIGNED TO BOLIVIA.

9. PRIVATE SECTOR HAS DONE LITTLE TO PROMOTE WHEAT PRODUCTION.

SANTA CRUZ MILL WAS BUILT TO MILL MAINLY ARGENTINE WHEAT.

10. PLAN TO MANUFACTURE PETROLEUM INDUSTRY " CHRISTMAS TREES" NOT
ONE OF 10 INDUSTRIES ASSIGNED BY ANDEAN PACT IN METALMECHANIC
SECTOR, BUT AN " EXTRA". WE DO NOT BELIEVE CONSTRUCTION WORK HAS
BEEN STARTED.
BREWIN

UNCLASSIFIED

*** Current Handling Restrictions *** n/a

*** Current Classification *** UNCLASSIFIED

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 16 APR 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973LAPAZ02177
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: n/a
Errors: n/a
Film Number: n/a
From: LA PAZ
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730443/aaaaiovm.tel
Line Count: 234
Locator: TEXT ON-LINE
Office: ACTION ARA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: boyleja
Review Comment: n/a
Review Content Flags:
Review Date: 24 OCT 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <24-Oct-2001 by averetam>; APPROVED <19 FEB 2002 by boyleja>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> jms 980120
Subject: PRIVATE SECTOR MAKES ECONOMIC ANALYSIS AND RECOMMENDATIONS TO GOB
TAGS: ECON, EFIN, EGEN, BL
To: ARA
LIMA
SECSTATE WASHDC
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005